

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7389**

**BILL NUMBER:** SB 410

**DATE PREPARED:** Jan 12, 2001

**BILL AMENDED:**

**SUBJECT:** Suspension of Sales Tax on Home Energy.

**FISCAL ANALYST:** John Parkey

**PHONE NUMBER:** 232-9854

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill allows the Governor, during an energy emergency, to suspend the state gross retail tax on the purchase of home energy.

**Effective Date:** July 1, 2001.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** This bill would allow the Governor to suspend the sales tax on the residential purchases of home energy sources; such as, electricity, natural gas, home heating oil, propane, or other fuel sources used for the heating and cooling of the home for up to 120 days.

The impact of this bill on state revenue will be determined by: (1) when, if at all, the Governor chooses to suspend the sales tax, (2) on which type of fuel sales the sales tax is suspended; and (3) the duration of the suspension.

Sales tax revenue attributable to sales of electricity, natural gas, propane, and home heating fuels are estimated to generate \$172 M in FY 2002, and \$177 M in FY 2003. The revenues attributable to these energy sources, individually, in FY 2002 are as follows:

Electricity	\$ 111 M
Natural Gas	\$ 46 M
Propane and Heating Oil	\$ 15 M
Total	<u>\$ 172 M</u>

Tax revenue from the sale of coal and wood for home heating was not included in this estimate because of data limitations and the limited number of households that purchases these products for home heating.

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund ( 40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%).

Future sales tax collections on the sale of fuel are dependent upon the price of the fuel and the quantity consumed by Indiana residents. The above estimates are based on the average fuel sales obtained from two distinct methods. The first used past expenditure data from the Bureau of Labor Statistics' *Consumer Expenditure Survey* to project households' future expenditures on home energy. The second method used current consumption data and price projections supplied by the U.S. Department of Energy, Energy Information Agency, to estimate future sales. It is important to note that fluctuations in the price of fuels directly influence the amount of sales tax collected.

Because of the nature of energy consumption, a suspension of the sales tax on home energy would be similar to increasing consumers' disposal incomes. People with higher incomes tend to purchase more goods. To the extent that more taxable items are purchased, the impact of the bill on the state's sales tax revenue may be partially mitigated.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Governor's Office; Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Tom Conley, Department of State Revenue, 232-2107; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; U.S. Census Bureau; U.S. Department of Energy, Energy Information Agency; *December 19, 2000, Revenue Forecast Update*.